

Who Are You (no, really)?

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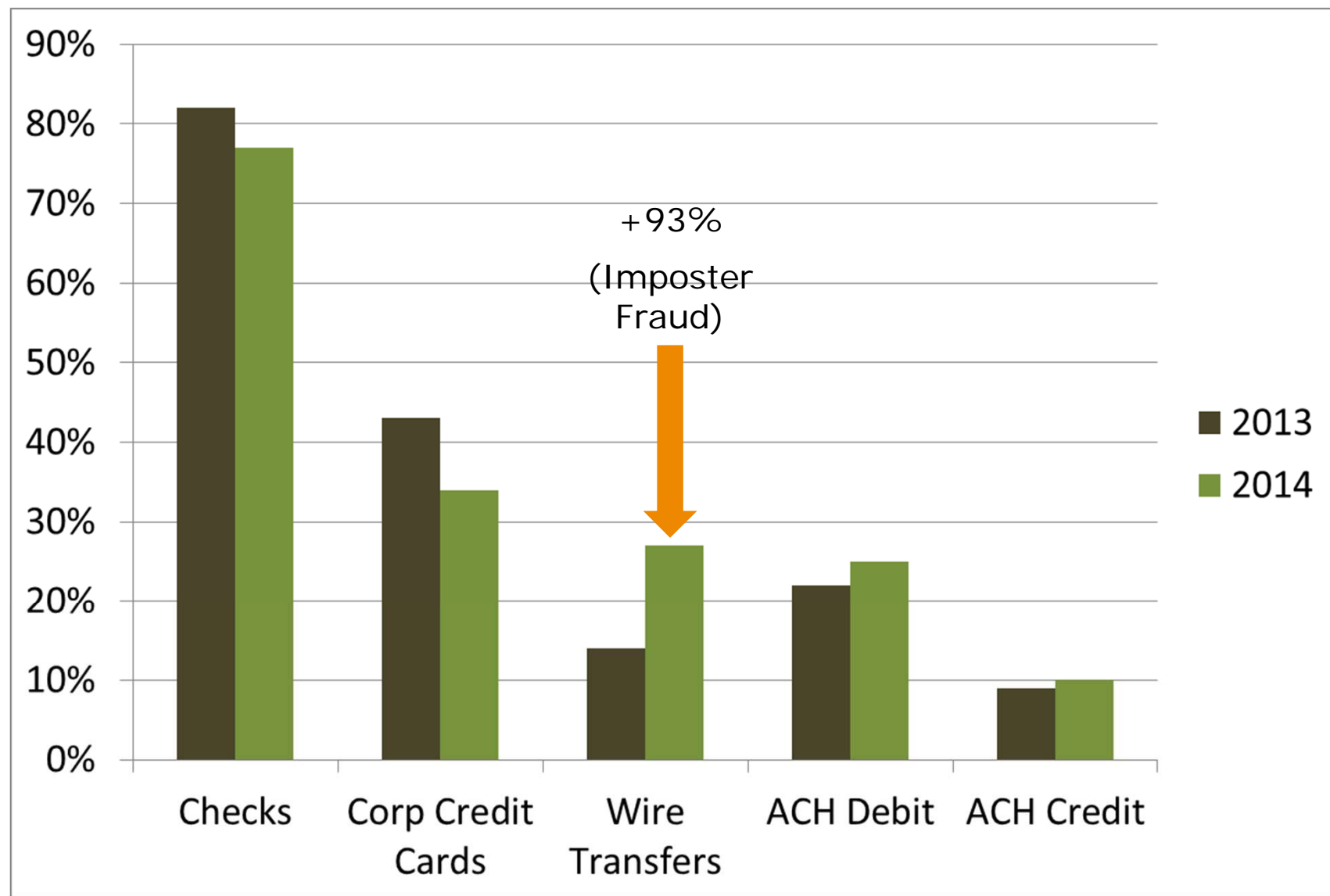
September 2015

Together we'll go far



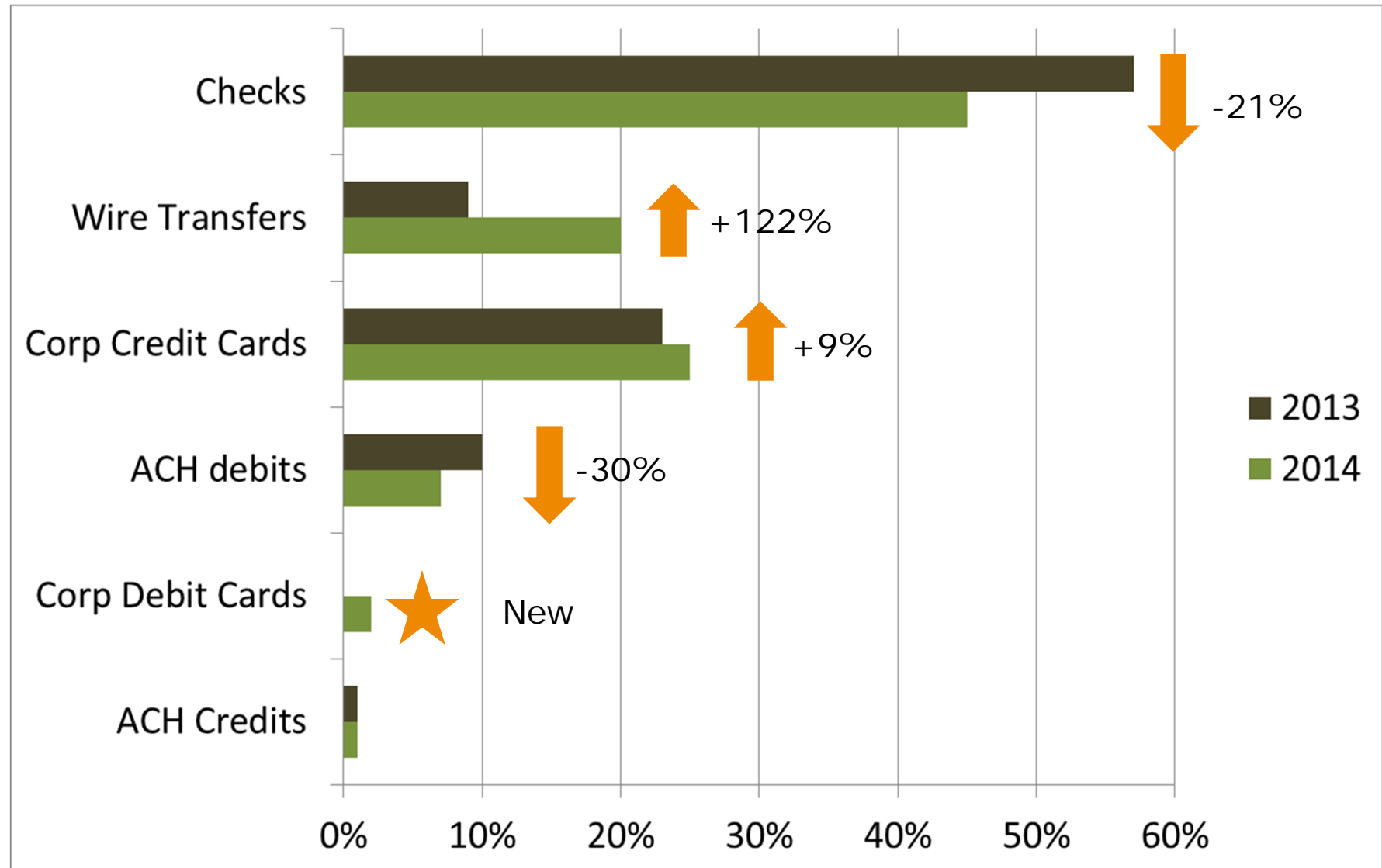


Payment methods subject to payments fraud

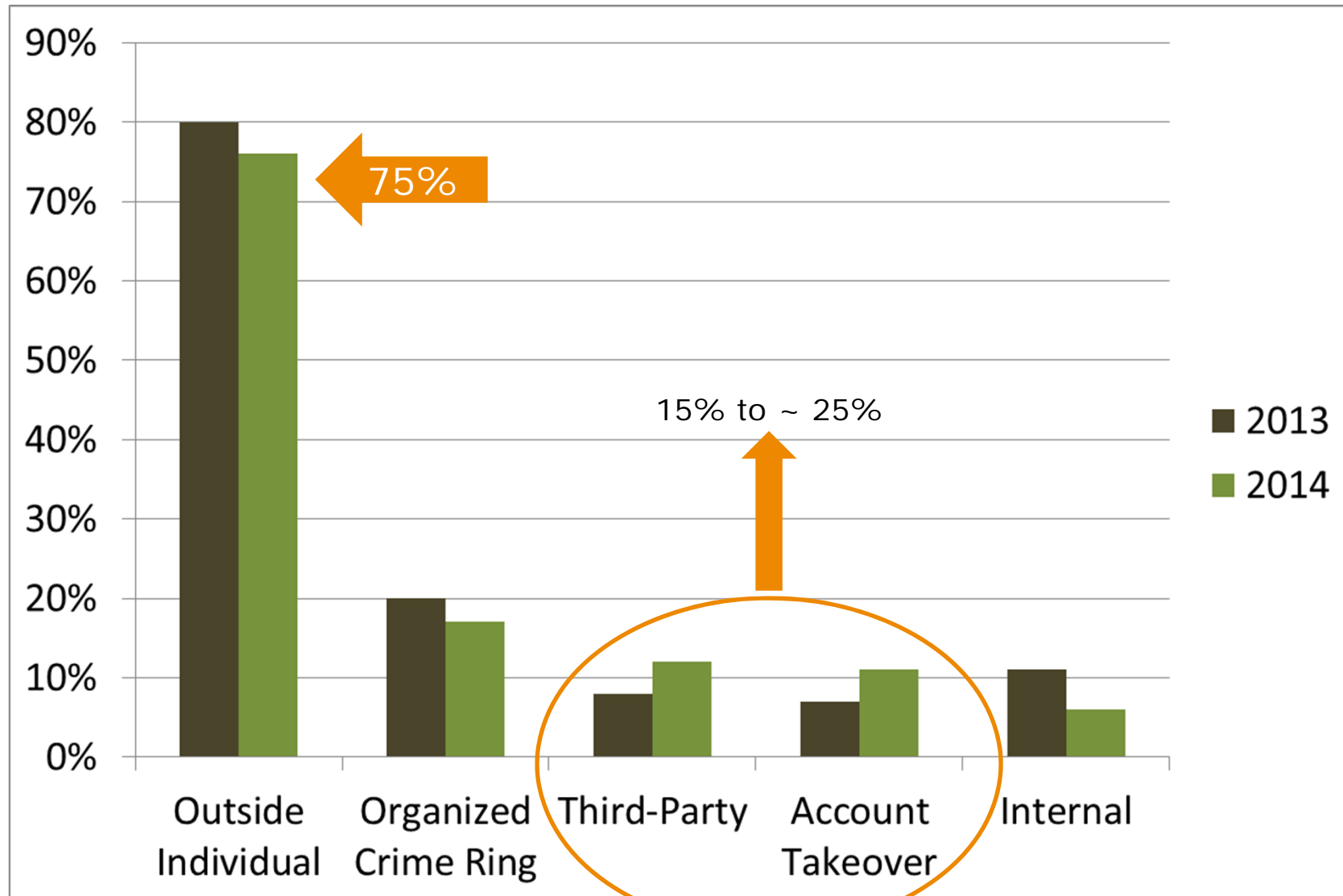


Source: 2015 AFP Payments Fraud and Control Survey % of Organizations subject to attempted or actual payments fraud

Payment methods with largest dollar loss



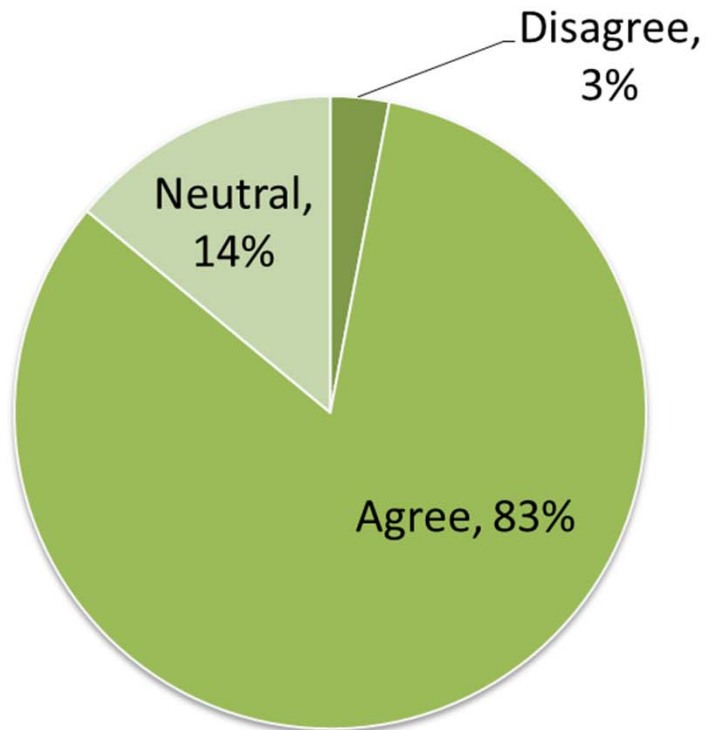
Sources of Payments Fraud



Source: 2015 AFP Payments Fraud and Control Survey

% of Organizations subject to attempted or actual fraud

Constituent Expectations

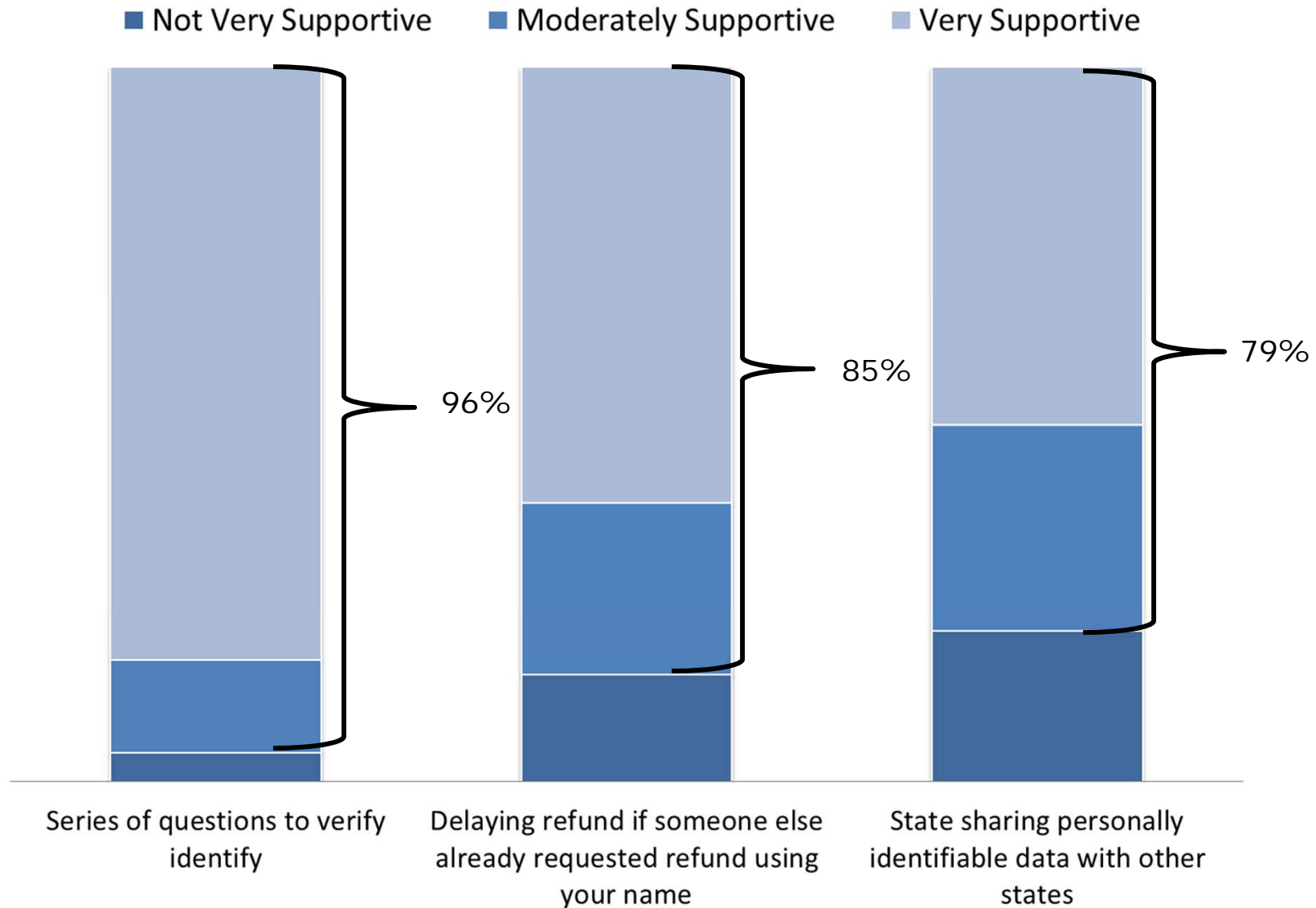


Level of Agreement with the statement:

“The state government should be responsible for ensuring that my state income tax refund is sent to the correct individual.”

Taxpayers believe the States are responsible for insuring refunds are correctly distributed

Constituent Expectations



Source: LexisNexis / Governing Institute, State Income Tax Refund Identity Fraud: 2015 Comprehensive Research Results, June 2015

\$5 billion annually

Losses due to fraud at all-time high
as a result of account takeovers

Source: 2014 Identity Fraud Report – Javelin

Imposter Fraud...Who are you? Who, Who?

Are they who they
say they are?

Do you know
whom you are
paying?



Impostor fraud is **different**

- It's highly scalable — multiple companies attacked at once.
- Hacking is **NOT** required.
- Fraudsters don't need to steal banking credentials (like in account takeover fraud).
 - **Instead, authorized users make the payments.**
Payments look normal to your bank.
- Not quickly identified — and it's hard to recover funds, especially if sent by wire.
- Bypasses typical controls.



Executive impostor fraud

The fraudster:

- Poses as your Tax Commissioner, Finance Director, CFO, controller, or other high ranking official.
- Emails or calls you.
- Asks you to send payments outside of normal channels – and usually by wire.
- May ask you to:
 - Keep the payment confidential.
 - Reply once you've sent payment.



Entity executives should communicate with and assure their back-office staff that it's OK and even expected to question any payment requests.

Vendor impostor fraud

The fraudster:

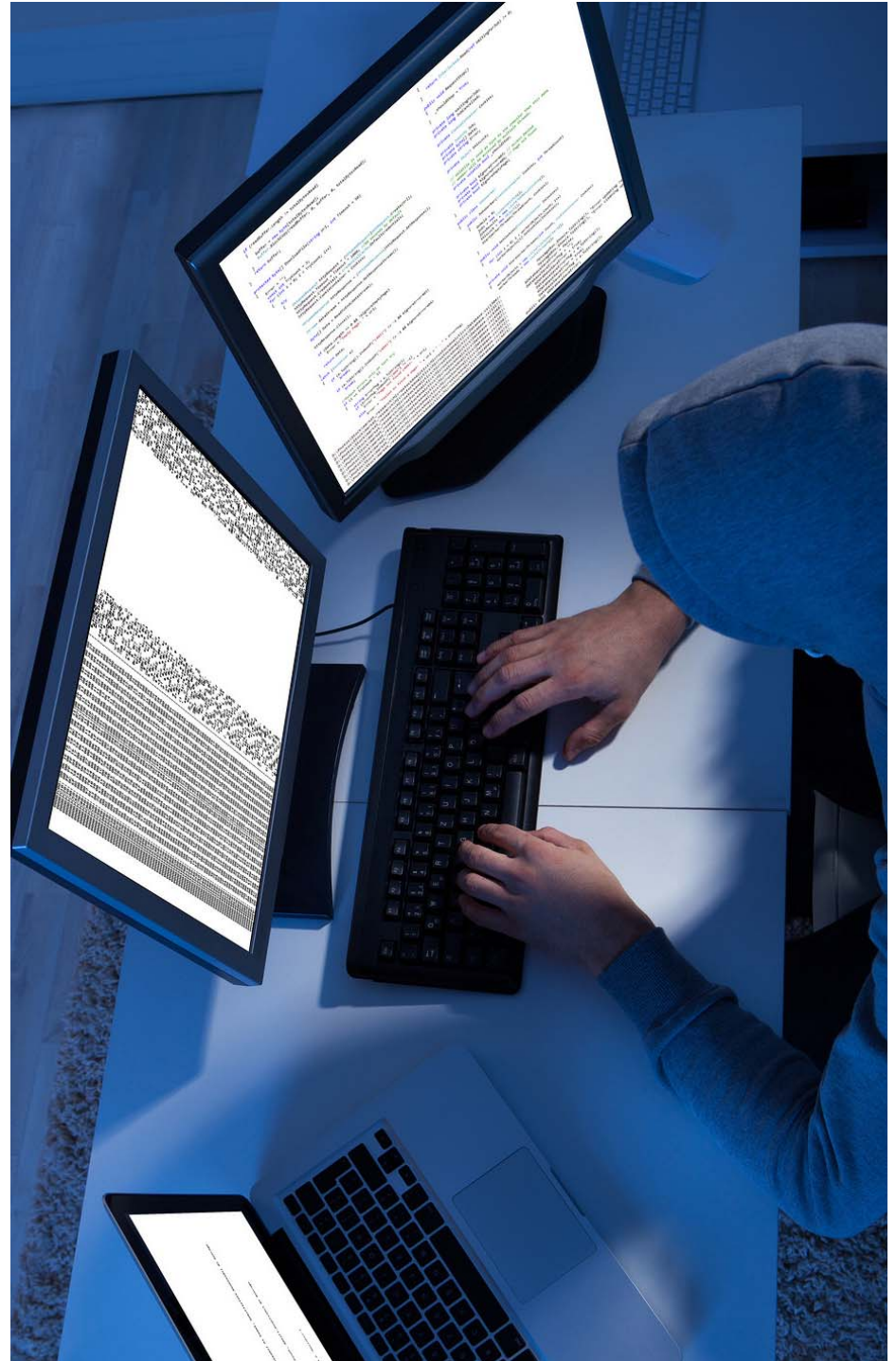
- Poses as vendor, supplier, or other business partner.
- Sends an invoice that appears to be legitimate.
- Contacts you by email, fax, phone, or mail.
- Asks to change their bank account information — "We need to receive payments to this new account."



Who are you?

The fraudster:

- Takes over full access to the email account.
- Can send emails from the user's account **undetected**.
- Calls a company's 800 number, asks for accounting.
- Impersonates a senior official
- Tells a convincing story about why a new payment is needed or asks to change current bank payment instructions.
 - Tax reasons, account under audit, etc.



Who Are You, no really?

- Educate your staff
- Educate your internal business partners and vendors
- Can IT block spoofed emails?
- Develop a formal policy for changing vendor banking info
- Watch your wires
- Audit your activity



Best practices for fighting impostor fraud


Market Landscape

Situation	Check fraud is still prevalent Electronic payment fraud rising New techniques emerge constantly
Need	More education Better Technology Faster information sharing
Impact	Constituents expect more prevention Greater focus on risk management More Tool Development

Who are you? – The next frontier is here



More secure operating environments for constituent payments



Validate — in real time — the person or business that owns the deposit account (account openings or wire transfers)



Reduce the number of unauthorized transactions



Decrease ACH NSF and administrative ACH returns



Make it easier for your customers to pay using the ACH system

Account Validation services

The value of community and collaboration



Provide broader visibility



Deliver actionable intelligence

Reduce fraud, manage risk, comply with industry rules & regs



Provide greater insight so you can better serve your customers

Account Validation services

Account Status

Confirm a deposit account (checking or savings) is open/valid and see if there's a risk of returning ACH or check transactions

Account Ownership

Confirm your payee has authority to transact on the account



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Who is Early Warning?



A fraud prevention and risk management company

95% visibility

Our vast repository of the nation's deposit accounts and activity allows us **respond to 95%** of the inquiries that we receive.

Unique business model

Data Contribution is essential to our partnership within our "Give to Get" model.

Operating rules define how contributor data can be used.

Advisory committees guide product road maps and address new risks & approve rules.

\$24 billion

Solutions identify > **\$22 billion in high-risk deposits and payments** annually.

Bank owned

- Wells Fargo
- Bank of America
- BB&T
- Capital One
- Chase

1,100+ touchpoints

Connectivity into 40 of the top 50 banks in U.S. Networked with more than 1,000 FIs, channel partners, major retailers, and check verification companies reaching 10,000+ end-user customers.



National Shared DatabaseSM Resource

Account Status: 597M+ participant and scored accounts

Account Ownership: 375M+ deposit account owners

- Associated with 269M+ deposit accounts

National Shared DatabaseSM Resource

Participant Accounts

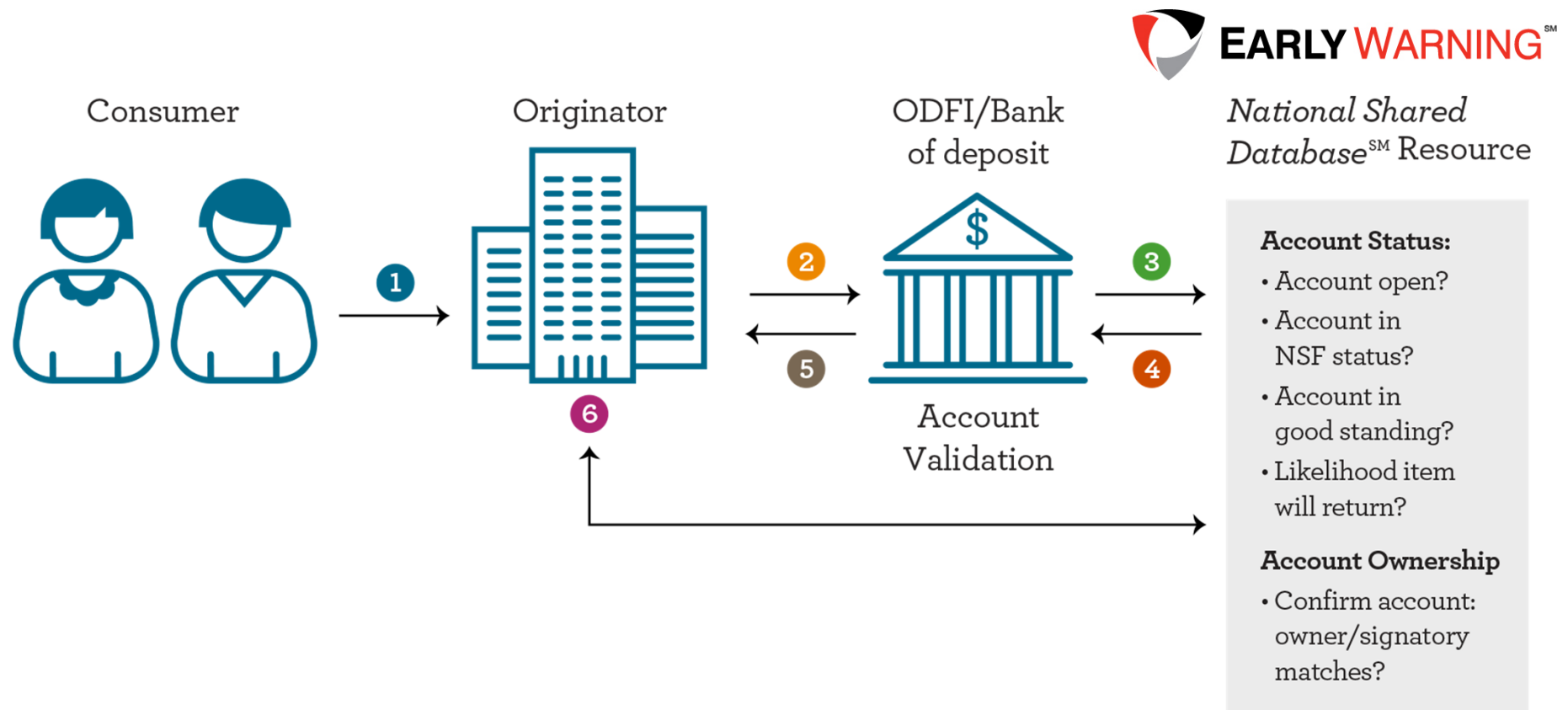
Accounts contributed by
Financial Service
Organizations on their own
accounts

Scored Accounts

Scored account responses
may be provided to an
inquiry item drawn on a
Financial Service
Organization that does not
directly contribute to the
National Shared Database
Resource

Score codes are based on
historical transaction
information that participants
contribute

How Account Validation services works



Status codes snapshot

Code	Definition	Code	Definition
000	Not Located	022	Enhanced OD (10/365+)
002	Closed For Cause	060	No Negative Information Found
003	Closed For Cause-Purged	080	Credit Card Check
006	Stop Payment 3/4 Field Individual Match	081	Participant Line of Credit Check
007	Stop Payment 3/4 Field Range Match	082	Participant Home Equity
010	Post No Debits	084	Brokerage Check
012	Closed	096	No Known Information
013	Closed-Purged	98	Non-DDA
014	Pending Closed	99	Present
015	Return Item Account (Recent Returns)	102	Savings Closed for Cause
020	Enhanced OD (3/90)	110	Savings Post No Debits
021	Enhanced OD (5/365)	112	Savings Closed

Scored account ranges: 430–499 = High probability of return

Account Ownership responses

Inquiry/matching against		Account owner/signatory matching codes
Required	Optional	(Y) Yes: Data element exactly or closely matches
Routing transit #	SSN	(N) No: Data element is not a match
Account #	Taxpayer ID	(C) Conditional: Data element has some similarities but is not a close match (i.e., SSN is off by one digit, or two digits are transposed)
Account name (first, last)	Account address (city, state, ZIP)	(U): Unavailable: That data point is unavailable for matching (i.e., no driver's license# on file)
	Date of birth	
	Identification/ DL#	
	Phone number	

Matching logic

Using “fuzzy matching” reduces false positives/negatives

Feature	Description	Example
Name variations (Including nicknames)	36,000+ name combinations	Robert Robbie Rob Bob Kathryn Kathy Kate
Differences <ul style="list-style-type: none"> ▪ Insertions ▪ Deletions ▪ Substitutions ▪ Transpositions 	<ul style="list-style-type: none"> ▪ Additional characters ▪ Missing characters ▪ Incorrect characters ▪ Transposed characters 	Robert Johnson Robert Johnson (additional “h”) Robrt Johnson (missing “e”) Robret Johnson (“er” transposed as “re”)
Initials	Name variations used	<u>Bob Johnson</u> matches well with <u>R. Johnson</u> and <u>B. Johnson</u> (Robert & Bob), but not well with <u>K. Johnson</u>
Enhancement	Description	Example
Phonetic encoding	Words that sound alike	“Piedersen” sounds similar to “Peterson”
Concatenations	Words that are sometimes combined	Mary Lou Smith > Marylou Smith Seth De Monet > Seth Demonet
Abbreviations	Word abbreviations to accommodate alphanumeric string variations	<u>Address components</u> : Street/St <u>Business synonyms</u> : Corporation/Corp, Limited/LLC <u>Prefix & suffix</u> : Accommodations for if items are present or not present to reduce mismatches

Benefits of validating account ownership

Transform back-office processes by optimizing payables and receivables

Real-time validation

- Status
- Ownership

Augment existing fraud detection tools

Reduce:

- Administrative ACH returns
- Unauthorized ACH transactions
- Tax refund fraud

Enhance your constituents' experiences

Use cases for Account Validation services

Receivables	Payables
ACH	
<ul style="list-style-type: none"> ▪ Collections of taxes, fines, levies or other fees ▪ Child support ▪ ACH enrollment ▪ Recurring payments ▪ One-time payments ▪ Established constituent updating banking information 	<ul style="list-style-type: none"> ▪ Tax refunds ▪ Vendor/supplier payments ▪ Court-ordered funds distribution ▪ College savings plan (529) disbursements ▪ Retirement benefits ▪ Customer support payments
Check	
<ul style="list-style-type: none"> ▪ DMV fees ▪ Permit and license fees ▪ Court fines and payments ▪ Risk screening check payments 	
Wires	
	<ul style="list-style-type: none"> ▪ Vendor/supplier payments ▪ Retirement benefits

Questions?

Appendix

Impostor fraud red flags

Red flags

Request to remit payment to new/different **bank account** you've never sent money to before

Request to remit payment to new/different **country** you've never sent money to before

Request for secrecy around payment (confidential/top secret)

Switch from commercial beneficiary to individual beneficiary:
XYZ Manufacturing vs. Jane Smith

Impostor fraud red flags

Red flags

For email spoofing, subtle changes to company name in the email, such as: **ABCadditive.com** vs. **ABCaddiitive.com**

Change in email address from a company domain to a public domain (e.g., @yahoo.com and @gmail.com)

Writing style may be off: either more formal than usual or less formal than usual — e.g., Jonathan vs. Jon

Warning: If the email has been hacked, all email addresses will appear legitimate.